



The City of San Diego

Staff Report

DATE ISSUED: 7/12/2021

TO: City Council

FROM: Debt Management

SUBJECT: Combined Appropriation Authorization for \$148 million - Various General Fund Supported Priority Capital Needs.

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Council District(s): Citywide

OVERVIEW:

The City has high priority capital projects and public safety and environmental services capital needs in the near term. Funding for such capital expenditures is generated from the issuance and sale of lease revenue commercial paper notes (Notes) of the City's Commercial Paper Program (CP Program) and lease revenue bonds (Bonds), both of which are issued by the Public Facilities Financing Authority of the City of San Diego (PFFA). Staff is requesting City Council authorization to identify existing or to-be-issued financing proceeds from Note and/or Bond offerings to facilitate advancement of the preliminary steps, including but not limited to release of Purchase Orders which are necessary to ensure the timely delivery of the purchases.

PROPOSED ACTIONS:

1. A resolution authorizing total combined Bond and Note proceeds of up to \$148 million to fund (i) Approximately \$41.3 for fire engines, (ii) approximately \$50.3 million for related SB1383 Implementation capital components, and (iii) approximately \$56.4 million for the Public Safety Radio Modernization Project. (see Attachment 1)
2. Authorizing the Chief Financial Officer to utilize Note and Bond issuances to generate a combined amount of up to \$148 million in proceeds for capital expenditures, which amount is in addition to using, as necessary, existing Bond proceeds of \$56.5 million for such needs.
3. Authorizing the Debt Management Department to prepare for Council consideration Bond financing ordinance(s) and necessary legal documents to timely conduct Bond issuances to generate permanent proceeds to meet the proposed \$148 million total in projected capital needs.
4. Authorizing the expenditure of Note and/or Bond proceeds of up to \$132.5 million for the projects [identified in Attachment 1] from existing or to-be-issued Notes and Bonds ("Financing Proceeds"), contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.

5. Authorizing the appropriation of funds of up to \$132.5 million for the projects [identified in Attachment 1] from Financing Proceeds.

Kearny Mesa Repair Facility Related Actions

6. Authorizing the Chief Financial Officer to increase the Capital Improvements program, appropriate, and expend, an amount not to exceed \$5,071,600 in Fund 400881, Debt Funded General Fund CIP, Project AFA00001, Landfill Improvements, contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer for the purpose of funding Compressed Natural Gas System upgrades in order to comply with SB1383.
7. Authorizing the Chief Financial Officer to increase the Capital Improvements program, appropriate and expend an amount not to exceed \$350,000 in Fund 400881, Debt Funded General Fund CIP, Project ABT00001, City Facilities Improvements, contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer for the purpose of funding improvements to the Miramar Landfill Staffing Facilities in order to comply with SB1383.
8. Authorizing the Chief Financial Officer to increase the Capital Improvements program, appropriate and expend an amount not to exceed \$10,000,000 in Fund 400881, Debt Funded General Fund CIP, Project P22001, Complete Streets for All of Us, contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer for the purpose of funding improvements to streets and public right-of-way infrastructure improvements citywide.
9. Authorizing the Chief Financial Officer to transfer appropriations in an amount not to exceed \$5,071,600 in Fund 400265, General Fund Contributions to CIP, from Project AFA00001, Landfill Improvements to Project S20009, Kearny Mesa Facility Improvements, for the purpose of funding improvements to the Heavy-Duty Fleet repair facility in order to comply with SB1383, contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.
10. Authorizing the Chief Financial Officer to transfer appropriations in an amount not to exceed \$350,000 in Fund 400265, General Fund Contributions to CIP, from Project ABT00001, City Facilities Improvements, to Project S20009, Kearny Mesa Facility Improvements, for the purpose of funding improvements to the Heavy-Duty Fleet repair facility in order to comply with SB1383, contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.
11. Authorizing the Chief Financial Officer to transfer appropriations in an amount not to exceed \$10,000,000 in Fund 100012, Infrastructure Fund, from Project P22001, Complete Streets for All of Us, to Project S20009, Kearny Mesa Facility Improvements, for the purpose of funding improvements to the Heavy-Duty Fleet repair facility in order to comply with SB1383, contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.

DISCUSSION OF ITEM:

Staff recommends approving the requested actions.

Background

In December 2020, City Council approved the Series 2021 Lease Revenue Bonds which were issued in April 2021. The proceeds of the 2021 Bonds were used to “take-out” \$88.5 million of outstanding Notes and provide \$56.5 million in additional proceeds for current City CIP needs. On June 24, 2021 the Transportation and Infrastructure Committee authorized an increase to the Fiscal Year 2022 Capital Improvement Program Budget. The authorization calls for the appropriation and expenditure of the 2021 bond proceeds and the commercial paper notes in the combined amount of \$145 million to fund critical CIP Projects.

Discussion

The 2021 Bonds provided the City with a total of \$145 million in immediately available funding from combined sources of, 1) \$56.5 million in Bond proceeds and, 2) \$88.5 million in Notes that can be issued as needed for priority public improvement projects. The City Council will be considering the action item appropriating the \$145 million for various City-wide high priority projects in a separate action. In compliance with IRS tax laws governing the application and use of tax-exempt bond proceeds the expenditure of the \$56.5 million in Bond proceeds will receive priority over other available project funding.

Additional High Priority Projects

While staff has identified the priority CIP projects for the \$145 million, there are additional significant capital needs for public safety and environmental services that total approximately (\$148 million) (Additional Projects). These Additional Projects consist of a new fire engine fleet, to be acquired over a multi-year period; new radio communications system; and new equipment and upgrades for the Environmental Services Department to comply with recent state law (SB1383) requiring that municipalities offer organics waste recycling. The intention of these actions included in the accompanying resolution is to recognize the necessity and urgency of the Additional Projects and meeting their immediate funding needs. With the requested authorizations staff will be able to increase expenditure budgets in order to proceed with procurement of the related equipment, recognizing that there is a substantial lag between the time the equipment is ordered and the time when cash is actually needed to pay for the equipment. This authorization will avoid delays that can carry unnecessary economic, operational, and statutory ramifications. The project description, estimated cost, and implementation timeline for each Additional Project are further presented by the Operating Departments in Exhibits A, B and C.

Cash Management – Bond and Note Proceeds for \$148 million in Projects

As with most large City capital projects, funding is needed in stages and not all up front. Efficient cash management is an important consideration when preparing a financing plan using Bond or Note proceeds (or other available funds) to avoid unnecessary interest and financing costs. Expenditures for the Additional Projects will start on different dates and the implementation timelines for those projects will also differ. For example, purchase orders for the fire engines and refuse packers will be placed at the start of the FY 2022, but the City will not receive or pay for those capital assets until the end of FY 2022 or the beginning of FY 2023. By authorizing the proposed actions presented above, Debt Management Department and Department of Finance staff will be able to coordinate with the Operating Departments to acquire needed equipment within their desired time-frames without causing the City to unnecessarily incur interest and other indirect costs.

The CP Program was adopted to enable the City to provide just in time financing to mitigate the inefficiencies of borrowing all needed project funds up front. Furthermore, its continual availability supports projects between bond issuances and can be pledged as the expected payment source for future projects. In fact, the City's Five-Year Financial Outlook and Five-Year Capital Infrastructure Planning Report project using CP on a revolving basis every two years. This also means the Bond program is currently expected to issue Bonds in the same pattern providing the opportunity to reset the CP Program and provide the additional funding needed to complete projects in a more efficient manner. The flexibility inherent to the CP Program is also a benefit when managing inevitable project delays. If a project is delayed, other projects relying on the same funding should not also be delayed.

In addition to public infrastructure and facilities projects, proceeds from the City's issuance of Notes and Bonds are strategically used to finance a variety of capital assets. Large programmatic capital equipment and bundled vehicle purchases are suitable for Note/Bond financing. Once Notes used for the initial acquisition are paid off with Bonds, the City benefits from longer terms for repayment, which is especially advantageous with long-term rates relatively low as in the current interest rate environment. By spreading the payments for big ticket items, including programmatic installation of equipment/vehicle purchases over 30 years (as opposed to the typical 7-10 years via the private short term funding mechanisms) staff is able to reduce short-term debt pressures on the General Fund and allowing General

Fund to more readily accommodate implementation of priority programs which offer services to the public. Debt Management staff working with tax and bond counsel can structure 30-year Bonds to finance a blend of assets with short- and long-term useful lives while taking advantage of lower tax-exempt borrowing rates.

Bond Structuring: City issues tax exempt bonds as serial bonds (for serial bonds, principal and interest on the bonds are paid annually throughout the nominal 30 year term of the bonds) and the debt service is generally level, i.e., equal payments for 30 years, with more interest and less principal repayment on the front end and vice versa in later years. When the proceeds from a long term offering are to be used to acquire a mix of assets, such as vehicles or radio equipment with shorter useful lives, mathematically, City is essentially paying off the principal and interest payments associated with the shorter term assets towards the front end of the bond scale with the longer term assets related principal and interest weighted toward mid to back end of the repayment scale. IRS guidelines requiring certain repayment standards ensure long-term tax-exempt issuance proceeds are not entirely used by the government agencies for short term capital assets.

When a basket of assets with a mixed useful lives are to be financed, which is the case with most of the City's General Fund lease revenue bond issuances, in conjunction with the bond and tax counsel, the operating departments, and the City Engineer, staff carefully evaluate the permitted allowances for the useful life calculations and conducts detailed analyses, to ensure the bond repayment structure is consistent with IRS guidelines. This analysis is an important and necessary step for the City to undertake any tax-exempt issuance and successfully execute a tax certificate for the purpose of the bond offering.

In addition, staff's proposal to finance large capital equipment in addition to brick and mortar projects, is based on sound guidance and advice from the bond counsel and backed by the reporting standards for capital assets in City's financial statements. Anecdotally, other large agencies, including the City of Los Angeles, for decades, have financed essential capital equipment through the public issuances of lease revenue bonds and certificates of participation. City of San Diego has historically financed vehicles and other programmatic short-term capital assets through private short-term master lease contracts. While this tool is still applicable and the City needs to continue to rely on private lines of credit, case by case, due to financial reasons and the General Fund affordability, as described above, expanding City's options within the public capital markets, beyond implementing private capital tools such as the City Equipment and Vehicle Financing Program, are added benefits for the City to finance the proposed needs with public bond and note undertakings.

City Strategic Plan Goal(s)/Objective(s):

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Fiscal Considerations:

The debt service pledged to support the \$145 million in existing funding is budgeted in FY22 and included in the Five-Year Outlook. Additionally, the Five-Year Outlook assumes general fund CP Program annual interest costs as well as take-out lease revenue bonds (or conversion to long term debt) every two years.

The annual debt service required to support the Additional Projects is estimated to be approximately \$8.5 million for a 30-year bond issuance to fund the combined cost of an estimated \$148 million. The projected burden (Debt Ratio), if all debt assumed in FY23, would increase the percentage of annual debt service to available general fund revenues from 5.2% to 5.7% in FY23, peaking in FY24 at 6.2% (from 5.7%)

The Kearny Mesa Repair Facility (KMRF) is under a long-term lease arrangement. Under the current agreement the City will not retain ownership of the property after the lease agreement terminates. As such, this facility is not eligible to receive tax-exempt financing and will be cash funded. Currently there are projects within the CIP that are funded by Infrastructure or General Fund Contributions to the CIP

funds. This action includes requests to increase the debt funds allocated to the Capital Improvements Program (Complete Streets for All of Us and Miramar Place Infrastructure Upgrades), and transfer a like amount to KMRF. After the debt funding allocation has been authorized, there will be no bottom-line impact to any total project budget, and there will be no impact to the total amount of funding allocated.

Charter Section 225 Disclosure of Business Interests:

N/A for these actions.

Environmental Impact:

This activity is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(4), as it is a government fiscal activity which does not involve any commitment to a specific project that may result in a potentially significant physical impact on the environment. As such, this activity is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Equal Opportunity Contracting Information (if applicable):

Information for individual Contracts for capital projects and equipment will be included in the corresponding council actions.

Previous Council and/or Committee Actions:

On December 8, 2020 the City Council authorized, via ordinance, not-to-exceed \$146 million of 2021 Lease Revenue Bonds to take out existing Commercial Paper Notes and provide funds for ongoing CIP. Bonds were issued in April 2021 producing \$56.5 million in proceeds and resetting the availability of the CP Program to \$88.5 million.

On June 24, 2021 the Active Transportation and Infrastructure Committee authorized an increase to the Fiscal Year 2022 Capital Improvements Program Budget. The authorization calls for the appropriation and expenditure of the 2021 bond proceeds and the commercial paper notes in the amount of \$145 million to fund critical infrastructure needs and priority CIP Projects.

Key Stakeholders and Community Outreach Efforts:

Citywide benefit.

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Debt Management Director

Matthew Vespi
Chief Financial Officer

Rolando Charvel
Department of Finance Director/ City Comptroller

Alia Khouri
Deputy Chief Operating Officer

Public Safety Radio Modernization Project**1. Project Background and Description**

Modernization and improvements have been made to the City's public safety radio communication infrastructure and systems in the past three years to move the City from analog technology to digital. This project supports modernization to digital radio capability.

This project will replace current public safety radios that have exceeded their useful life. Current radio models are end of life, no longer supported by the current manufacturer, are unable to communicate with other agencies, have reduced feature capabilities, and increased security risks.

The current radios are not in compliance with Federal and State Radio Communication, Emergency Response, and Interoperability Equipment requirements and standards. First responders using obsolete and non-compliant radios experience degraded communications which impacts the mission critical 9-1-1 services provided to citizens.

The new public safety radio units will provide improved voice quality, improve officer safety, enhance system and network security, improve efficiency with over the air programming, and create greater interoperability with regional agencies.

The public safety radio system maintains a 99.999% high availability metric. Replacement and modernization of radio units will allow the City to continue maintaining this high standard.

The Department of Information Technology supports modernization of public safety radios to provide high quality services to San Diego residents and drive operational efficiencies.

2. Estimated Project Cost Break down and amount to be financed

The current estimated total cost to replace and upgrade the current radios is \$56.4 million deployed in two phases over a two-year period, fiscal years 2022 and 2023. The first phase targets portable radios (4,605 units) and control stations (35 units) at an estimated cost of \$41.3 million ("Phase I"). The second phase will replace all mobile radios (1,920) at an estimated cost of \$15.1 million ("Phase II"). The entire cost of \$56.4 million will need to be financed.

The \$56.4 million is a projected cost estimate subject to bid finalization and includes radio hardware, accessories, warranty, maintenance support, as well as training options.

3. Project Implementation Timeline and Funding Timeline

An RFP for the replacement equipment was advertised on Planet Bids on November 3, 2020 with results and award expected in September 2021 and City Council approval in November 2021. Phase I equipment is expected to be ordered in December 2021, with rollout and payment in January 2022. Phase II equipment is expected to be ordered in July 2022, with rollout and payment expected in January 2023.

Source: Department of IT

Fleet/SD Fire – Fire Engines**1. Project Background and Description**

The Fleet Operations Department and San Diego Fire Rescue Department have identified 34 heavy duty fire trucks that need to be replaced through Fiscal Year (FY) 2023 and have incorporated them into the

City's Vehicle Replacement Plan. Fleet Operations is requesting financing for \$41.3 million to purchase these 34 fire vehicles in two phases over the next two fiscal years.

The City has found that a standardized fleet firefighting apparatus helps achieve efficiencies in operation, training, and maintenance, leading to higher proficiency in operating vehicles, saving lives and, protecting property. Therefore, in April 2020, following a competitive process, the City Council approved a Pierce Heavy Duty Fire Truck contract, allowing Fleet Operations to procure its standardized firefighting apparatus according to the Vehicle Replacement Plan through FY 2023. This contract expires in 2023. For more information reference Staff Report Dated January 17, 2020 – Authority to purchase Pierce Heavy Duty Firefighting Apparatus, parts and equipment from South Coast Fire Equipment Incorporated.

2. Estimated Project Cost Break down and amount to be financed

<i>Fire Engine Replacement</i>	FY2022	FY2023	Total
Aerial Ladder	3	6	9
Specialty Unit	2	3	5
Type 1	4	13	17
Type 3	2	1	3
<i>Total Vehicles</i>	11	23	34
Vehicle Cost	\$10,533,283	\$ 27,283,435	
Sales Tax	\$757,614	\$ 1,962,382	
Upfitting	\$217,000	\$ 507,400	
<i>Total Financing Need</i>	\$11,507,897	\$ 29,753,217	\$41,261,114

3. Project Implementation Timeline and Funding Timeline

Fleet intends to order 11 heavy duty fire trucks in FY 2022, totaling about \$11.5 million and 23 heavy duty fire trucks in FY 2023 in two separate phases for a total cost of \$29.8 million. Due to the 18-month lead time from order to delivery, Fleet expects to order the first units scheduled for replacement in July 2021. When the vehicles are delivered (expected first delivery in December 2022), Fleet will pay for the vehicle and request reimbursement in coordination with Department of Finance and Debt Management, subject to the proposed approval to finance the fire fleet acquisition with notes and bond proceeds.

Source: Fleet Operations

Exhibit C

SB1383 Implementation – Capital Costs

1. Project Background and Description

In September 2016, then Governor Edmund Brown Jr. set methane emissions reduction targets for California (Senate Bill 1383 Lara, Chapter 395, Statutes of 2016) in a statewide effort to reduce emissions of short-lived climate pollutants (SLCP). Methane is a leading contributor to SLCPs and landfills have been identified as the third largest source of the methane produced in California. To counter the effects of methane, the State developed specific prescriptive targets to reduce organic waste disposal by 50% in 2020 and 75% in 2025.

In order to comply with the requirements of SB 1383, the City of San Diego must implement the following:

- Provide weekly citywide organic (comingled yard and food waste) to all (285,000) residential customers serviced by the City;
- Procure 114,000 tons of compost, biogas, or a combination of the two annually;
- Adopt an ordinance and amend the franchise hauler agreements to support enforcement;
- Take enforcement action against non-compliance waste generators;
- Establish a 20% food recovery component by 2025.

The SB1383 implementation will include tenant improvements to the Kearny Mesa Repair Facility (KMRF) located at 8050 Othello Avenue, which will be completed by the lessor with input and direction from the City. The City currently has two priority 1 vehicle fleets, Heavy Duty Fire and Trash Refuse Packers, operating out of the Miramar Repair Facility. The Miramar Repair Facility is currently over capacity and more space is needed to accommodate current operations and to accommodate the addition of 53 trash refuse packers due to SB1383. KMRF, which is centrally located in the City, will serve as the primary facility for the repair, maintenance and readiness of the City's heavy-duty fire apparatus, and will provide additional needed capacity for current and future City operations. The addition of KMRF will increase operational efficiencies by increasing much needed technician bay space and yard space to accommodate the City's growing fleet and operational needs, and will free-up space at the Miramar Repair Facility to accommodate the additional trash refuse packers and compressed natural gas (CNG) fueling stations related to SB1383.

The City has a preliminary estimate of up to \$120 million in General Fund expenditures over a period of approximately 5 years (Fiscal Year 2022 to Fiscal Year 2026) to comply with SB 1383 including upgrading facilities, adding equipment, and onboarding of new personnel.

The most urgent costs to City's implementation will be transitioning from bi-weekly, mostly manual, yard waste collection to fully automated weekly organics collection where all residents will utilize 64 or 96 gallon roll out carts. This will require the purchase of 238,000 green roll out carts, an additional 53 refuse packers, and make upgrades to the facility necessary to support the fueling and maintenance of those vehicles. These packers need to be ordered this summer/fall to arrive for the roll-out in summer of 2022. In addition, other upgrades to the facility will need to be made to support the additional Sanitation Drivers and Fleet Repair Technicians that will be working from the Miramar Place Operations Facility. The General Fund capital costs necessary to begin implementation of the City's SB 1383 requirements is estimated at approximately \$50.3 million.

2. Estimated Project Cost Break down and amount to be financed

Below is the estimated breakdown for the General Fund portion of the capital needs. The corresponding recurring debt service for the financed amounts per the projected timeline presented below will be included in the annual General Fund Budget following the draw on the financing proceeds.

Item	Description	Total
Vehicles	53 Refuse/recycling packers (collection vehicles) and 13 pickup trucks to support the expansion of automated greenery collection citywide and support required Code Compliance staff	\$22,863,000
Containers	238,000 automated green/organics containers roll out carts, to support 285,000 participants	\$12,053,000
Kearny Mesa Repair Facility (KMRF)	Project will include tenant improvements to the fire vehicle repair facility, KMRF is the primary facility for the repair and maintenance of the City's heavy-duty fire apparatus, as well as a storage facility for the Fire Rescue Department reserve fleet. This portion of the 1383 projects will not be debt financed (see Attachment 1).	\$15,422,000

Total		\$50,338,000
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3. Project Implementation Timeline and Funding Timeline

Item	FY22	FY23	FY24	FY25	Total
Vehicles		\$18,359,000	\$304,000	\$4,200,000	\$22,863,000
Containers		\$12,053,000			\$12,053,000
KMRF		\$15,422,000			\$15,422,000
Total		\$45,834,000	\$304,000	\$4,200,000	\$50,338,000

Source: Environmental Services Department

Attachment 1:

Non-CIP Projects Benefitting from Financing Proceeds (Notes and Bond) (Action Item 4 & 5)

Project Type	Description	Total
Public Safety Radio Modernization		
Radio Replacement and Upgrades Phase 1	Portable radios (4,605 units) and control stations (35 units)	\$ 41,300,000.00
Radio Replacement and Upgrades Phase 2	Replacement of all mobile radios (1,920)	\$ 15,100,000.00
Sub Total:		\$ 56,400,000.00
SB1383 Implementation – Capital Costs		
Vehicles	53 Refuse/recycling packers (collection vehicles) and 13 pickup trucks to support the expansion of automated greenery collection citywide and support required Code Compliance staff	\$ 22,863,000.00

Containers	238,000 automated green/organics containers roll out carts, to support 285,000 participants	\$ 12,053,000.00
Sub Total:		\$ 34,916,000.00
Fleet/SD Fire – Fire Engines		
Fire Trucks	11 heavy duty fire trucks in FY 2022, totaling about \$11.5 million and 23 heavy duty fire trucks in FY 2023 in two separate phases for a total cost of \$29.8 million	\$ 41,261,114.00
Sub Total:		\$ 41,261,114.00
Total:		\$ 132,577,114.00

CIP Benefitting from Financing Proceeds (Notes and Bond) (Action Item 9 & 10)

Project Type	Description	Total
SB1383 Implementation – Capital Costs		
Miramar Place Infrastructure Upgrades	Compressed Natural Gas (CNG) fueling and facility upgrades to accommodate the additional collection vehicles and staffing required to support the implementation of weekly organics collection	\$ 5,422,000.00
Complete Streets for All of Us (Debt funded to free up funding for KMRP)		\$ 10,000,000.00
Total:		\$ 15,422,000.00
Total (CIP & Non-CIP) :		\$ 147,999,114.00